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SUBJECT: GBRV Takes Over Another Small Bank, Raising Total to Eight

REF: 2009 CARACAS 1537; 2009 CARACAS 1509; 2009 CARACAS 1491
2008 CARACAS 930

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (C) Summary: On December 11, the Venezuelan government (GBRV) took over another small bank due to "a situation of illiquidity," raising the total in the ongoing episode to eight. This bank, Banorte, fits the pattern of the other seven banks in that it was bought recently by a new entrant to the banking sector and was not considered sound. Most financial sector contacts post consulted the week of December 7 believe the episode has nearly run its course, with several caveats. One of these caveats is Banco Federal, a medium-sized bank that the owner of Banorte recently attempted to purchase and which has reportedly been subject to runs by depositors. End summary.

Banorte Intervened

¶2. (U) The Superintendency of Banks (SUDEBAN) announced late on December 11 that it was taking control of Banorte, a small bank accounting for 0.7 percent of the sector by assets, due to "a situation of illiquidity which does not permit it to cover its obligations in the short-term." SUDEBAN's announcement noted Banorte had been subject to administrative measures and put its intervention in the context of "irregular and irresponsible actions undertaken by a small number of small financial entities." The intervention will take place "closed doors," i.e. the bank will be shut until the GBRV decides what to do with it. SUDEBAN's announcement noted that 93 percent of Banorte's nearly 70 thousand depositors had their full deposits guaranteed by the Fund for the Guarantee of Deposits and Banking Protection.

¶3. (C) Banorte fits the profile of the other seven banks recently taken over (refs A-C), in that it was a small bank sold within the past two years to a new entrant in the financial sector. We know less about Banorte's owner, Jose Zambrano, than we do about the two groups that owned the other seven banks. According to a press report, Zambrano began his career in the insurance industry, moved to Caracas from his home state of Anzoategui in 1998, bought the insurance company Seguros Bancentro in 2007 (renaming it Zuma

Seguros), and bought Banorte in 2008. According to the same report, he owns 20 percent of Banco Nacional de Credito (a medium-sized bank) and established a holding company ("Zuma Holding, LLC") in Florida in 2009. According to multiple press reports, he made an offer to buy Banco Federal from Nelson Mezerhane in 2009; this offer has not been approved by SUDEBAN and appears to have been withdrawn. Banorte also fits the profile of the other seven banks in that it was not healthy: respected analyst Francisco Faraco (strictly protect) in his September 2009 assessment of the banking sector rated Banorte as having "potential conditions for a collapse."

Is the Episode Over?

14. (C) In conjunction with a visit by a Treasury Department economist the week of December 7, Econoff spoke with four contacts in the financial sector about the recent bank interventions. Brokerage executive and blogger Miguel Octavio (strictly protect) noted the episode might not be over, pointing specifically to potential problems with brokers (several of which were reportedly involved in the leveraging operation by which bank funds were used to buy other banks) and at Banco Federal. He said Banco Federal had been subject to "a terrible run," for which reason, he claimed, the GBRV had lent it 400 million bolivars (USD 186 million at the

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official exchange rate). Nevertheless, Sintesis Financiera analyst Tamara Herrera (strictly protect) described the interventions to date as "an episode that is probably over" and which was "not a crisis." Senior economists from Banco Mercantil (strictly protect) argued the interventions, which they said were more political than economic in origin, would not affect the majority of the banking sector. Banking Association chief economist Jesus Bianco (strictly protect throughout) made a similar point, arguing the interventions would not affect the sector significantly because of its "asymmetric" nature (i.e., the sector's concentration in a relatively small number of generally well-run large and medium-sized banks). He noted, however, that two medium-sized banks were in difficulty because of the aftermath of the structured notes episode of 2008 (ref D). (Note: One of the banks to which Bianco was referring is almost certainly Banco Federal, which had one of the largest amounts of structured notes on its books. End note.) He also predicted that Banorte, and perhaps up to two other financial institutions associated with Zambrano, would be taken over by the GBRV.

Comment

15. (C) While the general sentiment among local analysts seems to be that the episode of interventions is nearly over, it is still too early to be certain. If it spreads, Banco Federal could be the next significant institution requiring intervention. End comment. DUDDY